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SUBJECT: CAMBODIA BORDER AND CENTRAL HIGHLANDS PROVINCES BRUSHING OFF
MOST EFFECTS OF THE ECONOMIC DOWNTURN

REF: 07 HO CHI MINH CITY 1065

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¶1. (SBU) Summary: While provinces on the outskirts of Vietnam's Southern Key Economic Zone (SKEZ) feel cushioned from the global economic downturn because their largely agricultural economies can easily absorb unemployed workers, these areas are suffering from declining global commodity prices. The most striking example is the rubber industry -- prices are down 40 percent from their \$1500 per ton peak in 2008 -- a slide that has forced companies in Tay Ninh Province to cut production (by 25 to 30 percent) and wages (by up to 50 percent) but few jobs to date. Other exporters, like Hasfarm Agrivina in Lam Dong Province, have seen cut flower exports (particularly to Japan) and market share rise significantly as their international competition goes out of business. These provinces perform "average" to "mid low" (ranking from 32 to 56) on the Vietnam Provincial Competitiveness Index (PCI) and have relatively little foreign investment, so it's not surprising that already-licensed foreign direct investments have been postponed, but few existing factories are going out of business at this stage. Farther south along the Cambodian border, rural An Giang province is a star performer on the PCI (sixth among all provinces and the highest of any rural province) but still lacks significant foreign investment due to its remote location. Consumer demand is a relatively new phenomenon and is still growing steadily in city centers and special commercial zones like the Moc Bai on the border with Cambodia while An Giang is benefiting from booming domestic tourism as well as highly efficient fish and rice farmers. End Summary

¶2. (SBU) To engage provincial government and party leaders on the impact of the global downturn and gauge their response, the DCM traveled to the border provinces of Tay Ninh and Binh Phuoc and Binh Duong on March 9-12, and the Consul General visited the Central Highlands provinces of Dak Lak and Lam Dong on February 10-12 and the southern border province of An Giang on March 9-11.

Agricultural Provinces: Unemployment Hardly on the Radar

¶3. (SBU) Provincial officials as well as independent observers frequently note that because Vietnam is still largely a rural economy it has a natural buffer against the impacts of economic downturns. The rationale is that most people laid off from factory jobs in industrial centers such as HCMC or Binh Duong can return to the countryside, where they may earn reduced incomes but nonetheless are able to feed and house themselves. This is largely true. Outside the industrialized provinces of the Southern Key Economic Zone (SKEZ), agriculture and agribusiness dominate provincial economies; they are proudly self-sufficient in food production. In the border provinces of Tay Ninh and Binh Phuoc agriculture and agribusiness make up 36.8 and 53.5 percent of the economy respectively. Farther

south, the Mekong Delta province of An Giang is both Vietnam's largest rice producer and its largest producer of farmed basa (catfish). Agriculture still dominates the Central Highlands provinces of Dak Lak (54 percent of economic activity and 70 percent of workers) and Lam Dong (48 percent of economic activity) as well. Vietnam Provincial Competitiveness Index (PCI) scores were "average" to "low" for most of these rural provinces, with Binh Phuoc ranking 32nd (up from 49th in 2007), Dak Lak at 33rd, Lam Dong at 46th and Tay Ninh at 56th (out of 64). An Giang province is the only high-performer in this group, ranking 6th highest on the PCI -- the best showing for any rural province. The economic makeup of most of these provinces is unlikely to change significantly any time soon, since each province says that it prioritizes additional investment in agriculture and agriculture processing.

¶4. (C) Provincial officials in Tay Ninh, Binh Phuoc, Dak Lak, Lam Dong and An Giang provinces all stressed that there has been no drastic up-tick in provincial unemployment. Some workers have been laid off, while others have been hired; all part of the normal business cycle. Tay Ninh officials argue that they are creating additional jobs. For example, Moc Bai Border Economic Zone Director Mr. Phan Minh Thanh said that with strong demand since the first of the year, he has been hiring more staff: both local residents and returning migrant labor that had been working in HCMC, Binh Duong and Dong Nai. In fact, Thanh said that Moc Bai also employs Cambodians from the adjacent border regions, who can and do to work in the border region using their local identification.

¶5. (C) The manager of Pioneer Polymers, a U.S.-invested company manufacturing finger cots in Tay Ninh agrees that the local unemployment rate isn't going up. Time are tough, he said, and his factory closed for a few extra weeks around the lunar New Year holiday and will schedule some four day work weeks in coming months to offset a 20 percent drop in orders. Still, he won't lay off any employees unless conditions deteriorate significantly. Pioneer Polymers just added two more expatriate staff and a large red sign hung across the street just down from the Pioneer Polymers factory calling for 300 manufacturing workers with a starting salary of 2.5 million VND (\$150 USD/month). Pioneer Polymers also provides a good example of why factories in Tay Ninh are better able to cope with temporary downturns without resorting to layoffs. Because nearly all of the Vietnamese staff live in the immediate region and thus commute from their homes, they are more able to weather the temporary cut in pay precipitated by reduced hours than are workers in industrial provinces such as Binh Duong, the vast majority of whom live in dorms or apartments far from their home villages and rely on their incomes to survive.

...But Falling Commodity Prices Hurt

¶6. (C) The Tay Ninh Rubber Company started losing money when rubber prices dropped from 29m VND/ton in 2008 to 22million VND/ton in 2009, according to General Manager Mr. Trinh Van Vinh. The company's 2,500 staff -- from laborers on up to the general director -- have had their pay slashed by 50 percent. Vinh said that for the average laborer this means a pay cut from 7.4 million VND/month to 3.7 million VND/month (\$220 US). (Note: Even the new wages are well above Vietnam's minimum wage for rural areas. Also, like workers at Pioneer Polymers, almost all of Tay Ninh Rubber's employees are local residents. End Note). The company had cut production and has increased technical training to improve the quality of its latex. In Dak Lak, Thai Hoa Group (THG) Chairman Le Quang Dao told a similar story regarding coffee prices. Having fallen 40 to 50 percent off the peak in early 2008, coffee prices mean decreasing wages for workers at his factory. Other coffee companies are having difficulty executing contracts, so THG is attracting new orders that allow the company to maintain its current volume of production. An Giang provincial leaders reported that catfish farmers, particularly smaller producers, were seriously hurt by the fall in world prices last year but the province as a whole nonetheless managed to increase total sales by developing new markets such as Russia and the Middle East. An Giang's rice farmers suffered a poor year despite and bumper crop and high

world prices in much of 2008 since most were unable to sell their crops during the price spike due to export restrictions. (Comment: While farmers fared poorly, the giant SOE rice trading firm VinaFood II, made record profits by buying low and selling high. Largely as a result, PM Dung has ordered Vietnam's two giant SOE rice traders to ensure that all of the 2009 rice crop is purchased at prices that guarantee a reasonable return for farmers. End Comment.)

¶17. (C) Even falling commodities prices are not all bad news. Commodity importers like Truong Thanh Furniture Company in Dak Lak see falling prices as an opportunity. It's much cheaper to buy U.S. hardwoods these days, General Director Truong Thanh said, and 75 percent of the raw materials his company processes are imported. Thanh says he's had to find new buyers as companies like Pier 1 cut back on orders, but other customers like Carrefour and the Home Retail Group are picking up the slack. (Note: While other major furniture producers are also reporting encouraging results in spite of economic downturn, small producers are feeling the pinch more strongly, in part because they are unable to secure needed input materials. A large part of the huge drop in Vietnamese imports that led to a positive trade balance in the early months of 2009 occurred because of a steep reduction in the import of production inputs, including wood. Press reporting in mid-March began highlighting the problems that smaller furniture producers in the Central Highlands, in particular, are facing due to a shortage the imported hardwoods they need. Larger producers are more likely to import directly and are thus less affected by the shortage. End Note.)

¶18. (SBU) Other exporters with extremely low cost structures, like Hasfarm Agrivina in Lam Dong Province, are increasing exports and market share as their competition goes under. Japan is Hasfarm's biggest market for cut flowers. Japanese nurseries in particular tend to be small (1 to 2 acres, versus Hasfarm's 140 acres in Dalat) and high labor costs are now driving them out of business. As a result, Hasfarm orders from Japan for Vietnamese cut flowers are "up significantly" in 2009. In the short term, they are recruiting workers to expand the 1500 person staff working at existing facilities. They are also building a large number of new greenhouses that will lead to a very significant expansion of the work force in the mid-term.

Consumer Demand Continued Growing in 2008

¶19. (SBU) In Tay Ninh, Moc Bai Border Zone Director Mr. Phan Minh Thanh said that after opening in 2006 (and earning 500b VND in revenue, \$29m USD), the zone welcomed 1.2 million shoppers in 2007 (spending 930 billion VND, \$53m USD) and then another 3 million shoppers in 2008 (spending 1,457 billion VND, \$86m USD).

This growth has created several thousand jobs in the border zone alone, not to mention the construction going on nearby. The levels of imports have remained constant through early February. "We expected sales to go down in early 2009 but revenues have continued to grow," said the manager. Mai Linh Dak Lak Transportation Company told a similar story in Dak Lak province, maintaining a 70 percent seat occupancy rate on intercity buses despite increasing the number of buses from 54 in 2007 to 89 in 2008. In An Giang, domestic tourism is booming despite the sour economic climate. While international tourism attracts the most attention since it is the high dollar value sector, it is dwarfed by the over 3,000,000 domestic tourists who arrived in 2008 to enjoy scenic towns such as Chau Doc or visit famous temples in the "Seven Hills" region near the Cambodian border.

¶10. (C) While An Giang does not boast a major border shopping complex such as the Moc Bai center in Tay Ninh, gray market activities (smuggling) play a major role in the economy of border towns. As Deputy People Committee Chairman Tung told CG over a private dinner, the border is so porous that little effort is expended in combating flourishing trade in consumer goods. Electronics, motorbikes and any other product that is cheaper in Thailand or Cambodia than in Vietnam cross almost without risk since border police have their hands more than full in dealing with more serious criminals engaged in trafficking in persons or smuggling drugs or weapons into Vietnam. The trade

in gray market goods also helps with domestic tourism, since many Vietnamese tourists to the region reportedly take home an air conditioner, motorbike or other smuggled product along with their souvenirs.

Decoding Provincial Leadership: Tay Ninh

¶11. (C) In many (although not all) of the provinces we visited recently, a pattern of responses emerged apparently dividing responsibility for management of the economy and political issues. For example, Tay Ninh People's Committee Chairman Nen spoke at length about how investment was crucial and how the Tay Ninh People's Committee considers the Vietnam PCI an important assessment tool. They're currently focusing on administrative reform and labor training to help move up in next year's rankings. Nen also noted that province's "land availability" score had improved through their efforts last year. "We really look at the PCI closely," Nen stated. He added that labor training is woefully inadequate, as reflected in his province's 2008 PCI rating on labor, and will be a focus in coming years.

¶12. (C) In contrast, Tay Ninh Party Secretary Mdm. Le Thi Banh was clearly well-prepared, to the point of commenting on the Consul General's previously unmentioned experience as an economist in Eastern Europe, but nevertheless stuck to a prepared statement and steered well clear of economic or development questions. She was friendly and engaging on the margins of the meeting, joking with us in Vietnamese, but during the fifteen-minute official exchange she simply read repeatedly from a painfully canned script that welcomed political and cultural exchange and cooperation. When questioned, even softballs on the economy, she simply returned to semi-relevant phrases from her prepared text.

¶13. (C) In Lam Dong Province Deputy Party Secretary Nguyen Xuan Tien also steered clear of economic issues, concentrating instead on encouraging more political and cultural cooperation, in addition to our already fruitful bilateral economic relationship. Tien expounded on religious freedom in Lam Dong province, noting the Party visits groups on all major religious holidays. He also welcomed further cooperation and discussions regarding the Dalat Nuclear Reactor. The decision to approve bauxite exploitation in Lam Dong Province, despite concerns about the environmental impact, was a prudent decision based on much study, Tien summarized, but wouldn't be drawn into details.

¶14. (C) In contrast, Lam Dong Provincial People's Committee Chairman Huynh Duc Hoa readily fielded detailed economic and development questions, including on the controversial bauxite project. Lam Dong province has approved an investment license for VinaCoMin, which has already begun construction but not exploitation, Hoa said. Provincial officials are aware of the very public exchange between General Giap and Prime Minister Nguyen Tan Dung, but with the blessing of the central government Lam Dong approved the project and cautioned VinaCoMin to respect their environmental commitments. Ho emphasized that the project will create 30,000 jobs in Lam Dong and produce 600,000 tons of alumina per year.

¶15. (C) Perhaps nowhere is the People's Committee - Party contrast clearer than in An Giang. An Giang's extremely strong showing on the competitiveness index reflects a much broader "can do" attitude and focus on good government that permeates much of the People's Committee. In areas ranging from education to combating trafficking in persons, An Giang's enlightened policies could serve as a model for much of the rest of the country. The People's Committee built the first provincially chartered university in Vietnam 10 years ago with no assistance from the central government and is currently building a new campus for the 10,000 student and faculty (including 15 professors with advanced degrees from the USA). The university receives generous subsidies and all of the 5,000 students in the teacher's college receive full scholarships in exchange for agreeing to teach in provincial schools upon graduation. While the province remains poor, the economy is growing and many educated young people are choosing to stay -- a sharp contrast with neighboring provinces. A young business woman with a foreign (NZ) MBA and nine years experience in HCMC told CG that

running her businesses in An Giang is much easier than running those her family owns in HCMC and Dong Nai. While still far from ideal, the environment for international NGO's operating in An Giang is also much more open than in almost any other province. Rather than keeping NGOs at bay, the People's Committee of An Giang seeks them out and frequently agrees to share part of the expenses for their projects.

¶16. (C) The retrograde face of An Giang is (unfortunately) equally obvious and is most clearly seen in the political sphere. The Party and MPS are notoriously hard line on issues such as cracking down on Khmer Krom activists and protestors demanding that peasants' land rights be respected. In carefully scripted exchanges with CG, leaders of officially recognized religious groups such as the Hoa Hao sounded more like communist party organizers than spiritual leaders and ever-present MPS minders inhibited the CG's ability to interact with ordinary citizens at the temples and pagodas visited (although one elderly Hoa Hao adherent walked past the CG's frowning escorts to ask the CG for his card and permission to visit him in private in the future). While People Committee Chairman Lam Minh Chieu and Deputy Chairman Le Minh Tung were extremely open during discussions with the CG, Party Secretary Nguyen Hoang Viet declined to meet. Business leaders with whom CG met complained Party Secretary Nguyen and top officials have made fortunes from their connections with SOEs and land deals.

Leadership Hedges on Consular Districting

¶17. (C) Provincial leaders in Tay Ninh were the very forthcoming on our queries about how to move forward toward a fully-functional HCMC Consular District. Both Party Secretary Le Thi Binh and People's Committee Chairman Nen acknowledge the issues, but deflected efforts to better understand their views on consular districting issues. We've heard from MFA about the issue, Nen said, but with so little U.S. investment there isn't any need to formally include Tay Ninh in the district. When pressed, Nen said a "comprehensive cooperation agreement" between Tay Ninh and HCMC provides an adequate mechanism for their respective external relations offices to support consulate travel to Tay Ninh. During his official (and televised) meeting with CG, An Giang People's Committee Chairman Chieu was deferential towards the MFA's prerogatives in deciding on issues such as the Consular District but nonetheless very supportive of expanding the Consulate's activities in his province. Away from the cameras, both Chairman Chieu and Vice Chairman Tung were more direct: they support the inclusion of An Giang in ConGen HCMC's district but regret that it is not possible at this time due to "objections from other quarters." In private exchanges, they also specifically dismissed as groundless contentions that the border with Cambodia is so sensitive that it somehow precludes the inclusion of An Gian in HCMC's Consular District. Outside of Tay Ninh and An Giang, Other provincial leaders asserted that the current situation is adequate or referred us to the MFA and HCMC External Relations Office (ERO).

Bio Notes: Tay Ninh Province

¶18. (C) Chairman Nguyen Van Nen: Chairman Nen earned his degrees in law and (advanced) political science from the Public Security University of Vietnam, and traveled to the United States in 2008 with a Vietnam Rubber Corporation delegation. He was born in Go Dau District, Tay Ninh Province in 1957 and has been a Party member since 1980. He learned his (limited) English from American GIs and relayed stories of the kindness of U.S. Servicemen as well as the terror they inspired. He is friendly and articulate, peppering his exchanges with poetry recitations. He also professed a commitment to religious freedom in Vietnam, noting that many Tay Ninh People's Council representatives were Catholic or CaoDaiist.

¶19. (C) ERO Director Tuan: Director Tuan appeared very nervous and cautions, perhaps because the ERO office was only recently created and Tuan is new to his job. He is the former Director of the Province's Cultural Affairs Office. He was very friendly, nonetheless. He told DCM he had been a devout CaoDaiist after having witnessed the piety-and ensuing economic success of Bin Phuoc Entrepreneur Pham Thi My Le. Tuan's

parents live in the U.S., having emigrated in the early 1990s.

¶20. (C) Mme. Le Thi Ban was born in nearby Cu Chi District, Ho Chi Minh City, in 1950. She has been Party Secretary since April 2005 and is also a member of the Central Party Committee. She previously served on the People's Council of Tay Ninh, was Deputy Director of Education and Training Services, and worked as Director of In-service Training at the University Center of Tay Ninh.

Bio Notes: Lam Dong Province

¶21. (C) Lam Dong Provincial People's Committee Mr. Huynh Duc Hoa was born in Danang in 1954 and holds a BA in law. Hoa was elected chairman in June 2004 and is also a National Assembly Member. He was a Colonel/Director of the Lam Dong Public Security Department from 1987 to 2001, trained in public security in the Soviet Union from 1983-84, and was a member of the "revolutionary force" in Danang and Dalat from 1969 to 1975.

Bio Notes: An Giang Province

¶22. (C) People's Committee Chairman Lam Minh Chieu began his career as a mechanical engineer and has experience as a private businessman. He was head of the Provincial Party Control Commission and Party Secretary of the city of Chau Doc before becoming People's Committee Chairman and Deputy Party Secretary in 2005. He is guarded in public but very frank in private. Following the notorious harassment of Consulate employees by MPS in An Giang in 2007 (reftel), Chairman Chieu personally came to HCMC to apologize to the CG and assure him that Consulate are welcome in his province.

¶23. (C) Deputy People's Committee Chairman Le Minh Tung is a resounding success story for the Fulbright Program. A forester who became one of Vietnam's earliest Fulbright Program participants, Tung graduated from the Kennedy School of Government at Harvard. He currently serves simultaneously as the Deputy People's Committee Chairman and the Rector of An Giang University. He has been with the university since its founding, originally as Vice Rector to founding Rector Xuan. In discussions with local and international NGOs, as well as with representatives of the International Office of Migration (IOM) and even local government offices such as the Department of Labor, Invalids and Social Affairs, CG asked how it came to be that An Giang had such enlightened policies and well-planned programs in areas such as education, small business development, prevention of trafficking in persons and social support for victims of abuse or trafficking. While all interlocutors gave broad credit to "enlightened provincial leadership," in every/every case they mentioned Tung by name as a vital force guiding and supporting progressive policies.

Comment:

¶24. (C) During the DCM's March 9-11 trip to border provinces and the CG's February 10-12 and March 9-11 trips to the Central Highlands and Cambodia border region, both observed largely agricultural economies that seem to be moving slowly, but steadily ahead. Their agricultural focus distinguishes them from the more developed industrial provinces of Binh Duong, Dong Nai and Ho Chi Minh City, so attracting new investment and developing infrastructure will be more pressing concerns than unemployment. An Giang's obvious success in creating a business-friendly environment and its commitment to long terms investments in education set it apart; provincial leaders are clearly positioning the province to take advantage the opportunities that will develop once infrastructure, primarily roads and bridges, improves. Nothing we saw contradicted assurances from provincial and industrial leaders that the job loss that are happening are anything more than the normal business cycle at work. In fact, new job creation in growing industries like cut flower export and increasing domestic consumer demand are encouraging signs.

¶25. (U) This cable was cleared with Embassy Hanoi.

